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United States' Attitude to Foreign Loans

MORE *Loans Will Be Sought There By Allied Powers and it Will Be Bad Business to Refuse Them, Says a California Banker — Britain's Financial Strength.*

SHOULD the United States stop foreign loans? is a question answered in a decisive manner by Mr. J. S. Macdonnell, vice-president and cashier of the **First National Bank of Pasadena, California.** A copy of his analysis of the financial position of the United States and of the nations (including Canada) seeking funds there has been sent to *The Monetary Times* by the author. The Dominion is greatly interested in the attitude of the neighboring republic to foreign loans, that being Canada's money market at present for ordinary requirements. If particular reference is made to Great Britain, says Mr. Macdonnell, it is only because that country is the heaviest borrower and dominant partner and banker for the entente allies, and statistics are more readily obtainable regarding her financial situation. Should the Teutonic nations be in a position to avail themselves of credits in America, the arguments for or against extending them such credits would be equally valid. Neither Germany or Austria-Hungary finds it advantageous to place loans in the United States in large amounts at present because the allied blockade renders the transport of goods from America difficult, if not impossible. When peace is declared the central empires will probably wish to place large credits, and it will be undoubtedly good business to accommodate them.

Great Britain owes us somewhat over $1,000,000,000. Can she ever pay this back? Will she ever pay it back? Is there an end in sight to this borrowing? Should we not demand heavier and heavier collateral till this seemingly insatiable drain is stopped?

We have not been used to big figures, continues Mr. Macdonnell. We are like children who have learned to count up to 100 and are lost in the mazes of arithmetic. The limit of our comprehension has been reached in figures quoted by our prohibition friends when computing the annual liquor bill of the United States. We have practically taken no part in world finances until now. We have just begun to do some world banking. We are not doing all or the major part of it. Britain has lent abroad to other countries since the war began at least three times as much as we have. The world will not cease wagging should we stop doing business abroad, any more than Pasadena's business would stand still if our leading grocery and hardware should close their doors for a period and refuse to sell goods. But we would suffer.

The principal banking function which we are performing, internationally speaking, is that of depositary —very useful—but how long would a bank last or pay dividends that kept all its deposits in the vault? The images raised by the war are Cyclopean in their immensity, and this has its advantages. Principles which have been indistinct in their application have become recognizable in the hugeness of the examples. For instance, the difference between money and credit has been sharply defined in its relation to exchange.

When France and Britain placed the Anglo-French loan in 1915, people began to figure how long $500,000,000 would last at the rate of $25,000,000 per day, and concluded that as it would last only twenty days, England must be nearly bankrupt. It was not money the British government wanted or it would not have come here and paid higher than 5 per cent. when it could borrow at home for 4. Neither would it have been made a misdemeanor for Englishmen to subscribe to that particular loan, as was the case. It was, however, urgently convenient to purchase many things in the United States, and it was not at all convenient to pay $4.86 for only $4.50 worth of goods, in addition to the ordinary, or perhaps extraordinary, profit demanded by the seller or manufacturer. The position simply was that New York was sending more goods to London and Liverpool than were coming this way. England needed a lot of things in a hurry and we had them. The Anglo-French loan had exactly the same effect as though $500,000,000 worth of goods had been put in ships and sent to America. The same applies to the more recent credits established.

The basis of credit is not money, but rests on three considerations: first, integrity; second, the proceeds of past production; and, third, the ability to produce now and in the future. I do not ask a man who requests a loan how much money he has, but I do like to know what his assets and the goodwill of his business are worth.

As to the matter of integrity, which is not questioned by those of quiet mind, unless they have an ulterior motive to serve, it may be remarked that Great Britain has never yet repudiated payment or defaulted in interest upon a debt, and she has been doing business for several hundred years under the same name.

As to proceeds of past production, which, by the way, are the result largely of her own extension of credit